



DEPARTMENT OF STATE

BRIEFING MEMORANDUM

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TO: The Secretary

FROM: EB - Joseph A. Greenwald *per JAG*

JUL 15 1976

ON FILE DOS WAIVER
INSTRUCTIONS APPLYMonthly ReportSome Lessons of UNCTAD IV

The purpose of this report is not a detailed assessment of the results of the UNCTAD Conference. That has already been prepared and sent to the field (#146041, June 14, attached). The purpose is to examine where we may be said to have failed and why, and what we can learn from the experience.

We achieved our basic objective at UNCTAD IV, to maintain a constructive atmosphere in North/South relations. The Conference was chaotic but it was not confrontational. The LDCs wanted to do business. They eschewed politically divisive issues: Israel, South Africa, Chile. They berated the Socialist countries for inadequate support. They did not press radical NIEO positions: indexation, permanent sovereignty over resources, producer associations. They did not push UNCTAD into the areas of competence of GATT, the IMF, the IBRD, or CIEC. They focussed on practical solutions to concrete problems, as we have urged them to do.

Not all their practical solutions commend themselves to us--debt moratoria, the Common Fund--but these are not extreme positions.

In short, the atmosphere was not hostile. There was little give in LDC positions. They remained fixed behind programs hammered out at Manila. But the LDCs were not radicalized in Nairobi. In the crunch, appropriate words were found to permit resolution by

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consensus, with appropriate reservations, interpretations, and comment. This was not because of "dark hints from oil-exporting countries that the collapse of UNCTAD IV would influence oil-pricing policy", as the London Times suggests. It was because all the affected groups--the UNCTAD Secretariat, the LDCs, and the industrialized countries--wanted to avoid a breakdown in the dialogue.

We failed in two respects, however, in the reception of our proposal to study the idea of an International Resources Bank and in the poor coordination, indeed disarray, among the industrialized countries.

International Resources Bank

Preparations for UNCTAD IV began quite early. A systematic effort was begun last fall to see how far we could realistically and sensibly go in meeting LDC positions and in advancing independent initiatives of our own. The proposal for an IRB was put forward late in this process. It was a complex proposal with novel features (project bonds denominated in commodities or currencies or both). Its elements kept changing in each of its successive versions. Thus, in the early versions it was a bank that would lend for resource development and for buffer stocks. In subsequent versions it ceased to be a bank but retained the name. It was not fully clear even in its final version what were the essential features of the proposal and what were peripheral elements. Thus, it was unclear whether the commodity bond was a central, rather than an optional, feature of the proposal; or what the obligations would be of the host government on the one side and the investors on the other that must be spelled out in the trilateral agreement and presumably be guaranteed by the IRB. (We still need clarification on these matters.)

The proposal was not only late in being given its final shape and interagency concurrence, but also it was not to be discussed with other governments in advance of its presentation at Nairobi, except in the most general terms. Consequently, there was no advance exposition of the idea in LDC capitals; no effort made to explain how the IRB would be helpful to them; how it

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would meet some of their central concerns about MNE exploitation of their subsoil resources. UNCTAD delegations from LDC capitals had no instructions on the issue or indication that it would be put forward.

The IRB came as a surprise. It was viewed with suspicion and was the subject of various and conflicting interpretations. Many LDCs saw it as a torpedo aimed at the Common Fund. The US Delegation had to explain repeatedly that the IRB was not intended as a diversion to, or substitute for, the integrated program. When the delegation tried to explain IRB's purpose and merits, the LDCs did not listen. They were committed to the Integrated Program which had been developed over an extended period, and they resented new proposals in the commodity area that might possibly throw doubts on their program.

UNCTAD is not in any case the place for analysis and assessment of new proposals, unless they are relatively simple and unambiguously in the LDC interest. Thus, a US initiative to support UNCTAD technology training centers, let us say, would be well received. Indeed, our integrated technology program to enlarge LDC technological capabilities was a great success. It was a one-way street filled with goodies for the LDCs. But a new US proposal to promote investment by multinationals in LDC oil, gas, and mineral resources was bound to hit a sensitive nerve, even if it had not been coupled with US opposition to the Common Fund.

No conference document was issued to explain the IRB and its benefits for the developing countries. All that was available was the extensive text of the Secretary's speech and a more extensive press conference explanation by the working head of the US Delegation. One reason surely was the difficulty the delegation had in spelling out the proposal beyond the official text because it is obscure on many points. All the regional group spokesmen were briefed on the IRB but they were not receptive. UNCTAD is an ideological forum, the wrong forum in which to make investment by the multinational corporation the central initiative. To make the proposal attractive it would have been useful to say quite explicitly that the investors would

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supply capital, technology, and management on a contractual basis with no "ownership" of the subsoil resources, if that is indeed what is intended.

For most LDC delegations, lacking instructions from their capitals and desiring not to offend the US, the easiest course was to be absent or abstain when the issue was put to a vote. This is what ninety countries did. Indeed, it was unclear why we needed UNCTAD endorsement of further consideration of IRB, since no UNCTAD role was foreseen, unless there was some link between the IRB and Common Fund--exactly what the LDCs feared.

The lesson is clear. We incur great risk if we seek endorsement in a massive, unwieldy forum like UNCTAD IV of a complex new proposal that has not been explained in advance. The opportunities for explaining on the spot and being heard are few. Our choices in such situations are (1) to discuss complex or inherently controversial proposals in advance in order to win understanding and support in the capitals; (2) to unveil proposals without advance notice in order to achieve the dramatic impact of new initiatives but then to lobby unremittingly to secure support. This involves obvious costs; or (3) to gain the benefits of surprise but not to seek immediate endorsement of the proposals if they are not part of a general consensus. There will be ample opportunity to put the proposals forward again.

With the benefit of hindsight, it is clear that we were left with very poor choices once the IRB got separated from the main consensus resolution. At that point, we should have dropped a separate resolution on IRB as too vulnerable to defeat when we did not need the victory at UNCTAD.

The second and obvious lesson is the need for earlier planning, on an interagency basis where possible, so that we are in a better position for advance lobbying in capitals as well as for full discussion in the OECD.

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Coordination of DC Positions

Notwithstanding our efforts in advance of UNCTAD to develop a common approach on LDC issues, Group B (OECD countries) fell apart.

The problem of reaching an agreed developed country position, difficult enough because of the wide divergence of view within the Group, with the Nordics at one end of the spectrum and the Germans at the other, was made immeasurably more difficult by the desire of the EC to reach a common Community position first. Thus, the developed countries not in the Community sat around from Sunday to Thursday of the last UNCTAD week waiting for the EC-9 to agree on a position on commodities. The agreement that emerged from the EC's labors was a minimum position which we and the other developed countries found inadequate and the EC could not alter. Their only concession was to add one sentence on the IRB to their position. The problem of a time-consuming EC caucus within the larger DC caucus is a familiar one. We have had to contend with it in the past in international monetary negotiations. And the rigidity of the EC position once it is hammered out makes further DC negotiation virtually impossible.

In the event, we submitted two Group B texts: the EC version and the version agreed by the US and other developed countries. In the interval the LDC position escalated and the ministers of Group B went their separate ways.

The delegation was under instruction to coordinate with the Germans, which we did. The Germans were even less forthcoming than we in the endeavor. Then they were caught up in the EC effort to develop a common line and left us behind.

The problem of coordination was further compounded by the mischief of the Dutch. Pronk distributed the four power statement on commodities of the US, UK, Japan and Germany to the non-governmental organizations who leaked it. That raised the temperature several degrees. Then Pronk called a formal press conference

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on the four power statement and condemned it.

There is a general disposition not to concert DC views unless there are compelling reasons of self-interest to do so. An agreement that is pitched to the lowest common denominator, distasteful to those who wish to be more forthcoming, will necessarily fall apart under pressure from the developing countries. There is, moreover, the belief that diversity of views by the developed countries is in fact desirable in the North/South context. With the LDCs fixed in their position, having learned from long experience that their strength is in their numbers if they can stay together, a fixed DC position, especially if it is fixed at a minimal level, will polarize the dialogue and radicalize the developing countries. In this view it is the LDC job to exert pressure and the DC job to respond constructively with each developed country responding at a pace that its own circumstances may require.

There are surely a number of issues on which a DC consensus is not necessary. The developing countries have urged, for example, that official development aid should be at a minimum .7% of each developed country's GNP. Some DCs give more aid, some less. The US gives less and does not accept the target. The failure to concert on this issue does not injure the international economic system although it may embarrass the US. Similarly, we do not need a developed country consensus on the use of debt rescheduling as a form of aid. Some developed countries are prepared to reschedule official debt as a form of aid; some are not. The US is constrained by Congress not to do so.

Given the difficulty of concerting positions among the developed countries and the merit of retaining some fluidity in the North/South dialogue, we should seek agreement on some rules of the road. One such rule might be that however diverse the positions expressed by the developed countries may be, they should not seek to undercut each other--as the Dutch

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did--in the North/South dialogue but let their positions stand on their merits. Secondly, we should agree that where LDC proposals would be injurious to the international economic system and therefore to our common interest, we must concert to frustrate the proposals. Indexation is an example. Producer cartels is another. It is not clear whether the Common Fund is yet another. Some developed countries support the Common Fund because they believe it may be useful, others because they believe it will do no harm, and yet others cynically because they do not expect it to come into being, given US and German opposition. We can secure a common developed country position on this issue only if we can demonstrate that the Common Fund as proposed by the UNCTAD Secretariat would indeed be injurious to our common interests or seriously wasteful of our resources. We would, of course, need a fall back position on which most DCs could agree, essentially a variant of the Fourcade proposal.

In the Puerto Rico Declaration, participants agreed that they should collaborate on "sound solutions to (LDC) problems which enhance the efficient operation of the international economy". This is the ideal formulation. We may have to settle for second best and agree to concert in opposition to positions that impair the operation of the international economy. The Puerto Rico Declaration also calls on us to make our efforts "mutually supportive, not competitive". The second best formulation might be agreement not to undercut each other in the North/South dialogue by overt disparagement of less "forthcoming" positions or in other ways.

Level and Nature of US Representation

A candid assessment of our UNCTAD experience should address the question of our representation at UNCTAD. In the previous three ministerial meetings of UNCTAD, our opening statement was made by an Under Secretary of State who then departed, and the final resolution of the disputed issues was made by the delegation on the scene, not by ministers from

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capitals. This reflected our desire not to give undue visibility or weight to the meetings.

UNCTAD is not our preferred forum for discussion and negotiation of North/South issues. It is an LDC pressure cooker. And it is essentially a political conference with an agenda of economic subjects. Its size, bloc procedures, and extensive agenda--taken together with the rigidity of LDC positions, pre-negotiated at Manila--make genuine negotiation impossible except at the edges of the issues, and put a premium on political lobbying skills. Our preferred forums for negotiations are functionally specific institutions like the IMF, GATT, IBRD in which LDCs are full participants and are informed on the issues, where their voices are heard and their needs can be accommodated, and the Secretariat prepares sober and balanced analyses. Or perhaps CIEC which has the merits of small size, closed sessions, and focus on specific issues, but the final balance sheet on CIEC is not yet in. The IMF has developed a number of new facilities to deal with special LDC balance of payments needs. The MTN is committed to give special attention to the trade needs of the developing countries. The World Bank and the regional banks are expanding their capitalization to meet the needs of LDCs for development loans.

Representation at UNCTAD at the highest level calls world-wide attention to the forum and gives it prominence and prestige. It also heightens expectations. The heightened expectations influence the behavior of the LDC participants. They assume we are more prepared to accommodate their proposals than we intend, and they are more than ever inclined to stone-wall as a result. Furthermore, the opening statement of our representative must be bold and broad in scope, with many new initiatives. We do not have an unlimited supply of these.

At the Seventh Special Session it was necessary to turn the North/South dialogue around, to change the tone of discourse and to shift the debate from rhetoric to practical action. We set the agenda with a broad range of forthcoming proposals which we are pursuing in appropriate bodies. The Special Session was an ad hoc event. UNCTAD is a continuing body. Its

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plenary is not a forum for reasoned debate. It is weighted against us. Its Secretariat will continue to develop new proposals to redress LDC "just grievances". At UNCTAD as elsewhere it is necessary for us to make the most effective case we can for our positions and philosophy. But we should not give UNCTAD added weight and influence. A more modest representation at its ministerial meetings--with a larger proportion of officers on the delegation who have multilateral experience in political bodies like the UN General Assembly--would accord better with our assessment of its usefulness. In order to safely keep our representation at the sub-ministerial level, we have to convince some other major industrial countries to do the same.

UNCTAD will not go away, of course, or in the unlikely event that it should, Special Sessions of the General Assembly in New York would replace it. The essential lesson of our experience at UNCTAD IV is the importance of preparing our positions and initiatives with sufficient clarity and sufficiently far in advance to allow full prior consultation as necessary, so that we can make the most effective case at future sessions...without needlessly enhancing the prestige of this ideological body.

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